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DEPARTMENT OF STATE
BRIEFING MEMORANDUM

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INSTRUCTIONS APPLY

April 14, 1976

To: The Secretary

From: EB - Joseph A. Greenwald

ON-FILE USDA WAIVER
INSTRUCTIONS APPLYMonthly ReportInternational Food Policy Moves to USDA

Farm organizations have made it unmistakably clear that they want the Department of Agriculture and not the State Department to make international food policy. The President has responded by establishing the new Agricultural Policy Committee. Chaired by Secretary Butz, it will "formulate, coordinate, and implement" all food and agricultural policy, both domestic and international.

The new Committee was unveiled in a way that highlights both the leadership role of the Agriculture Department and the subordination of international to domestic policy.

"Who's the chairman means a heck of a lot," said Assistant Secretary Bell according to the Journal of Commerce, because he initiates action and shapes the way in which information is presented. "The old groups were chaired by the State and Treasury Departments."

"Under the new structure," says the Journal, "Bell doesn't think an instance could take place like the request to Poland not to purchase U.S. grain, made last fall at the initiative of the State Department."

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Agriculture's Priorities

Agriculture's highest priority is promoting maximum production and consumption of U.S. agricultural products to increase U.S. farm income. For practical purposes, this has meant expanding the production of U.S. grains for export. Viewed in this light, present domestic agricultural policies (reinforced by coincidental world production shortfalls) have been a huge success.

World trade in grains has doubled over the last five years--with the U.S. supplying 95 percent of the increase until it now is the source of half of all grain traded internationally. This has meant a doubling of net farm income (\$12.8 billion in 1971; \$24 billion in 1975) and a tripling of agricultural export earnings. Even discounted for 29 percent general price inflation, this is a remarkable performance.

It is these gains for the U.S. farm sector that Agriculture wants to further and to protect. The use of food to further our foreign policy interests is not a USDA objective.

What does the primacy of USDA, and its single-mindedness, mean for your food initiatives at the World Food Conference and for other elements of our international food policy?

World Food Conference Initiatives

The November 1974 World Food Conference was the high water mark of global concern about the adequacy of the world food supply. The reasons have been often stated: exhaustion of the North American grain surplus--the largest absolute decline in world grain output in more than a decade--increasing population pressure in food deficit LDCs--a lull in technological advances.

While food-population pessimists believe we are entering a period of chronic scarcity with soaring demand for food outrunning the productive capacity

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of the world's farmers and fishermen, less alarmist assessments by USDA and UN experts stress the largely transitory factors in the sudden shift in the global supply-demand balance, and foresee world food production, in total, keeping ahead of population growth for the next decade or more. The problem will not be production but distribution. "And there will be times and places of critical shortage."

To meet these problems, you emphasized at Rome three main lines:

- Increasing food production in food deficit LDCs;
- Providing a reasonable level of food aid as an interim measure to meet minimum MSA needs until per capita production increases;
- Establishing world food security based on an internationally coordinated system of nationally held grain reserves.

Where do Our Substantive Proposals Stand and What Support Can we Expect From USDA?

Agricultural development in the LDCs and food aid are more or less on track. A world food reserve system and agricultural liberalization in the MTN are stalled. USDA has been foot-dragging on both issues and the US-USSR grains agreement pretty well signaled the end of our effort on reserves.

Agricultural Development

There is unanimous agreement at home and abroad that accelerated agricultural development among food deficit LDCs is the long-term solution to the world food problem. The prospect of LDC grain imports of 100 million tons by 1985 (as compared with about 45 million tons annually today), while well within the capability of the exporting countries to provide, would place a heavy financial burden on the poorer developing countries, even if prices dropped to levels closer to production cost.

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We are giving top priority to agriculture in our bilateral aid programs. The IBRD and IDA are devoting one-third of their commitments to agriculture (as compared with 15 percent in 1972) and additional resources to fertilizer plants. If and when the International Fund for Agricultural Development is established, a further \$1 billion may become available (see page 8 below). There are formidable technical, economic, and institutional obstacles in the LDCs that need to be overcome; but the potential for increasing production and crop yields is great.

USDA fully subscribes to this objective, supports it on the Hill and in international organizations where it has the lead, such as FAO. USDA support is not surprising, although it may appear inconsistent. The economic development of LDCs is good for U.S. agricultural exports. As income increases, the poor seek to improve their diets, even in the LDCs. Rapidly developing LDCs are important new markets for U.S. food and feed.

USDA is sensitive, however, to providing production assistance that could promote LDC exports in competition with American farmers. The current flap on palm oil imports is an example, but there may be others as our development initiatives gain momentum.

Food Aid

The food shortage psychology of the past few years radically changed the complexion of our food aid programs from a means of disposing of surplus U.S. commodities to a means for providing balance-of-payments support in selected cases. Foreign policy interests on one hand and market development interests on the other underlie these programs. These interests, represented by State and USDA, are generally, but not fully, complementary.

USDA is beginning to press for a stronger lead role (at State's expense) in PL-480 decision-making. It has a greater concern about the reappearance of agricultural surpluses in the short-run than about

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shortfalls, It wants to be able to expand and contract PL-480 programming to suit its objective of sustaining commodity prices at about current relative levels. This means not only budgeting in a procyclical manner (making more available when there are surpluses and prices are low and less when supplies are tight and prices high) but also concentrating on large food importers where food aid can be used as a bargaining device to capture or maintain the entire import market.

There are three problems:

- Our foreign policy priorities change over time whereas the massive intake capacity of South Asia is likely only to grow;
- Often the foreign policy return on a small food aid program at the right time and place is greater than a massive one in a country with practically unlimited needs;
- Wedding the bulk of our food aid to South Asia, to an even greater extent than at present, neutralizes its political impact and puts the leverage we should exercise as a donor in the hands of the recipients.

USDA's newly won bureaucratic leverage makes sustaining a balance between domestic and foreign policy interests more difficult, but we should be able to maintain our position.

Food Security

Our grain reserves proposal was an attempt to develop urgently, apart from more general trade issues, a system to assure adequate food supplies in the event of major shortfalls. Such shortfalls, involving poor crops in several of the large producing countries, occur perhaps once each decade--although some analysts believe the frequency is increasing. In the absence of large world reserves, the industrial countries will face economic shocks from sudden sharp jumps in food prices. The poor countries will face starvation, which they can avoid only by food aid transfers paid for by the large exporters--principally the U.S.

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Our proposal for a large grain buffer stock has ancient antecedents--the Old Testament--as well as later proposals for an ever-normal granary. In the 50s and 60s the U.S. and Canada assumed the responsibility for maintaining an adequate world grain reserve, mainly for domestic agricultural policy reasons. With the exhaustion of the North American grain surplus, we have been seeking a world grain reserve agreement that would distribute the burden of carrying stocks more fairly--and that would include the USSR which is a major source of instability in the world grain market. (With the conclusion of the US-USSR grains agreement, the Soviet incentive to join an international food reserve system has considerably diminished.)

The USDA sees little merit in a world food reserve. If importing countries are concerned about their future access to supplies, they can build their own stocks or enter into long-term contracts. For the rest, traders and farmers can carry working stocks. The USDA reflects the view of the American farmer who wants no buffer stock "overhanging" the market. (If prices were to soften--let us say, two record crops back-to-back--the Government might begin to accumulate stocks.)

With the dissipation of the crisis atmosphere of 1974, the decline in grain and fertilizer prices, and the resumption of trade rivalries, other exporters and importers--including LDCs--have become more concerned with price stabilization than with the question of availability of supply. The chief concern of other exporters is that we will continue to seize the lion's share of exporting markets at their expense. A price stabilization agreement which sets a floor, as well as a ceiling, price would prevent the more efficient U.S. producers from out-competing them. The affluent importers believe they can buy what they need, while the poor importers believe they can exercise sufficient political and moral pressure on the rest of the world to assure that their emergency needs will be met.

The food security issue has thus become a trade and aid issue--linked to grain negotiations in the MTNs and locked into their schedule.

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Always ambivalent toward the grain reserves proposal, USDA has fostered the present standstill.

It may be possible to address the question of grain price stabilization after the coming election because a failure to reach some measure of agreement on grains would threaten the entire MTN. Even Earl Butz admits privately that next year the U.S. will probably be prepared to negotiate a grains agreement with a price element in it.

Where do we Stand on the New Institutions Created or Endorsed by the World Food Conference?

Judged in terms of efficacy or accomplishment, some of the Food Conference follow-up institutions are likely to fail--if not this year, then next.

Those most likely to go are, first, the Consultative Group on Food Production and Investment (chaired by Ed Martin). It has the difficult, if not impossible, task of advising on allocation of foreign investment and assistance to LDC agriculture on the basis of voluntary examination of performance in using these resources. It suffers from non-cooperation and sniping by at least one of its sponsoring agencies (FAO).

Second, the World Food Council (chaired by Egyptian Vice President Marei with John Hannah as Executive Director) had a nearly disastrous first session last year and seems bent upon indulging its impulse for self-destruction by repeating most of its earlier mistakes in the session now being planned for June. We are trying now, and will press further at a preparatory meeting in May, for a tighter focus on issues with which the Council might be able to deal effectively.

The USDA looks to the FAO to provide technical assistance in food deficit countries. It believes no new international agencies are needed and it sees the Conference follow-up institutions as redundant as well as ineffective.

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The International Fund for Agricultural Development (IFAD), which the OPEC countries proposed at the World Food Conference and which we strongly endorsed, is at a crucial stage. Draft articles of agreement establishing the Fund have been negotiated. The UN Secretary General is supposed to set a date for a plenipotentiary conference, when indications are received that pledges in an amount of \$1 billion would become available. OPEC countries have made no firm pledges, only vague noises and Iran is walking away from its earlier commitment. The French have blocked an EC contribution; the eight are considering individual contributions. The Japanese have been silent but can be expected to come through in the end.

The next six weeks are a make or break period. We may ultimately have to scale down the whole project.

What are the Prospects After Election?

Trade and related issues, including grain reserves, cannot be dealt with until the political climate cools.

It is possible that in 1977 we may be able to accede to the demands of other major grain importers and exporters for a loose price stabilization agreement in the MTN...an agreement with a very broad price band that would trigger consultations among the participants and appropriate action. Such an agreement would have to contain some trade liberalization features and possibly food aid commitments to be acceptable to USDA and the Congress.

The Russians have made clear their interest in negotiating a market stabilization arrangement for wheat in the International Wheat Council (IWC). Understandings affecting grain trade agreed in the MTN could be given practical effect in a new wheat agreement negotiated in the IWC.

The Russians have scaled down their livestock targets in their new five-year plan and are planning a substantial expansion of storage capacity. The likelihood is that their imports will continue to grow but at a slower rate.

EB Staff:da 4/14/76

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